Seattle City Light

Memorandum

DATE: October 25, 2013

TO: Mayor Michael McGinn
Seattle City Council

FROM: Jorge Carrasco

SUBJECT: Financial Update – September 2013

This memo provides an analysis of Seattle City Light's financial condition and operating results through September 30, 2013. The attached Income Statement Analysis, which is summarized in the chart below, provides a summary of how City Light performed year-to-date in 2013 compared to the same period of the previous year and the year-to-date 2013 Financial Plan. In addition, we have provided a forecast of City Light's financial results through December 2013 compared to the 2013 Financial Plan. The 2013 Financial Plan is based on the revenues and expense projections included in the adopted budget for 2013.

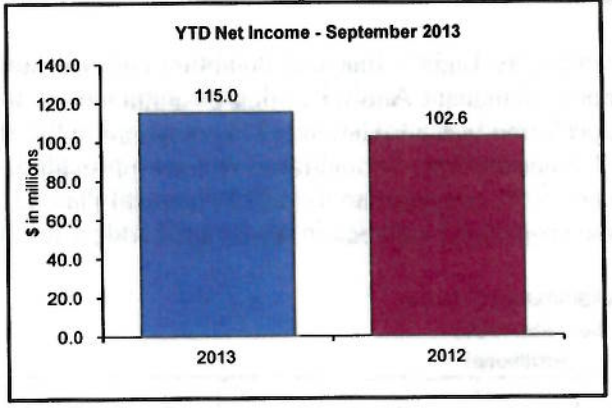
FINANCIAL HIGHLIGHTS
September 2013
($ millions)

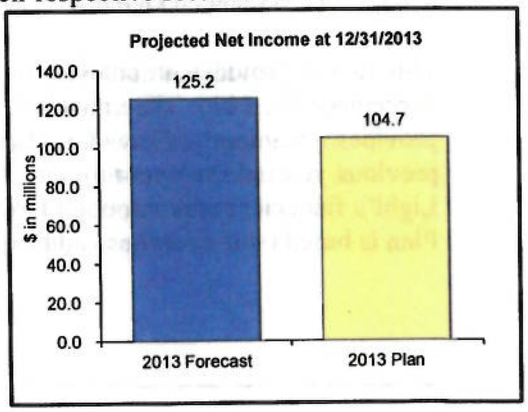
	Year-to-date Plan	Year-to-date Actual		Year End Dec. 31		Forecast change from prior month
	2013	2013	2012	Plan	Forecast	
Retail Power Revenues[1]	$ 517.2	$ 507.2	$ 489.1	$ 707.2	$ 698.3	$ (1.8)
Net Wholesale Energy Sales[2]	$ 72.0	$ 38.9	$ 46.1	$ 90.0	$ 60.3	$ 13.6
Net Power O&M	$ (184.7)	$ (174.4)	$ (173.6)	$ (257.2)	$ (249.5)	$ (1.5)
Net Non-Power O&M	$ (157.7)	$ (150.1)	$ (134.9)	$ (224.4)	$ (217.3)	$ (0.2)
RSA Transfers, Net[3]	$ (1.0)	$ 32.8	$ 33.1	$ (1.4)	$ 29.0	$ (13.8)
Taxes, Depreciation & Other	$ (158.2)	$ (139.4)	$ (157.2)	$ (209.6)	$ (195.6)	$ (0.8)
Net Income	**$ 87.5**	**$ 115.0**	**$ 102.6**	**$ 104.7**	**$ 125.2**	**$ (4.6)**
Operating Cash	$ 142.8	$ 220.1	$ 186.2	$ 135.6	$ 223.6	$ 12.4
Construction Account - Restricted	$ 136.5	$ 122.7	$ 168.2	$ 42.8	$ 19.9	$ 0.3
Rate Stabilization Account	$ 92.6	$ 95.5	$ 108.4	$ 93.0	$ 99.3	$ 13.8
Bond Reserve	$ 47.0	$ 36.8	$ 34.1	$ 57.0	$ 46.8	$ 0.0
Other Restricted Assets	$ 10.3	$ 11.3	$ 10.2	$ 16.7	$ 8.4	$ (0.0)
Total Cash	**$ 429.1**	**$ 486.4**	**$ 507.1**	**$ 345.1**	**$ 398.0**	**$ 26.4**
Debt Coverage Ratio	n/a	n/a	n/a	1.8	1.9	(0.0)
Debt to Capitalization Ratio	62.8%	61.8%	63.0%	62.4%	61.5%	0.1%

(1) Retail power revenues include revenues such as Green Power Program and power factor charges.
(2) Revenue from wholesale sales, before booked out long term purchases.
(3) Transfers from the RSA less transfers to the RSA.

Year-to-Date Net Income, Relative to 2012

As indicated in the table on the previous page and in the charts below, net income for the period ending September 30, 2013 was $115.0 million, which is $12.4 million or 12.1% higher compared to the same time period in 2012. This increase is primarily due to higher retail power revenue as a result of the 4.4% system average rate increase, as well as higher capital contributions. Offsetting these increases are higher generation, customer service, administrative and general, and depreciation expenditures. Year-to-date retail power revenue and selected expenses data are detailed in their respective sections below.



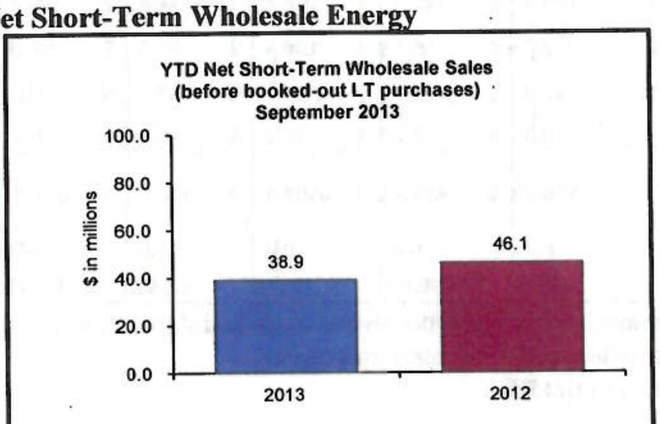


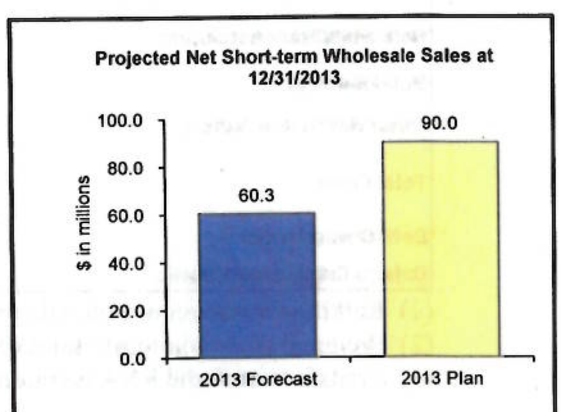
Projected Year-end Net Income, Relative to Plan

Projected net income at year-end, 2013 is expected to be $125.2 million, which is $20.5 million or 19.6% higher than the 2013 Plan. Contributing factors include:

- <u>Net Non-power O&M</u> expenses are lower than planned due to higher than planned vacancies, which are partially offset by the write-off of costs for the planning of the Gorge second tunnel and various duct and vault assets that are no longer part of our system needs.
- <u>Capital Contributions</u> are much higher than planned due to increased in-kind CIAC from the 2013 completion of an SDOT Mercer corridor project and the Amazon HQ project.
- <u>Net Power O&M</u> expenses are lower than planned due, in part, to lower than planned Stateline wind output as well as lower than planned Lucky Peak and BPA purchase expenses.
- <u>Retail Revenues</u> are lower than planned, which partially offsets the increase in net income. This is due to an updated and more conservative load forecast and lower year-to-date consumption, which is slightly offset by increased rates from the 0.9¢/MWh BPA pass-through effective October 1, 2013.

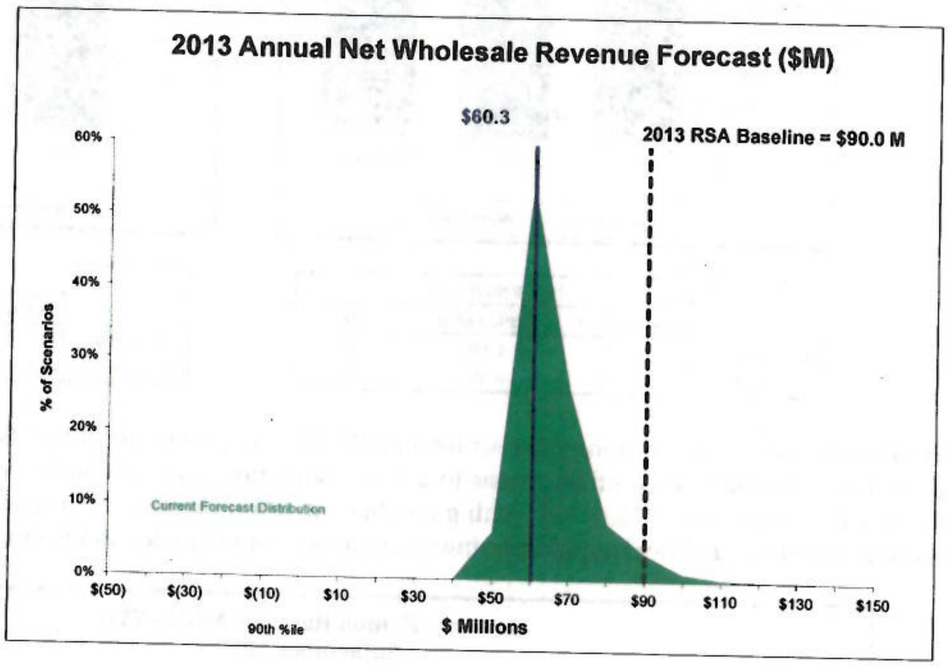
Net Short-Term Wholesale Energy



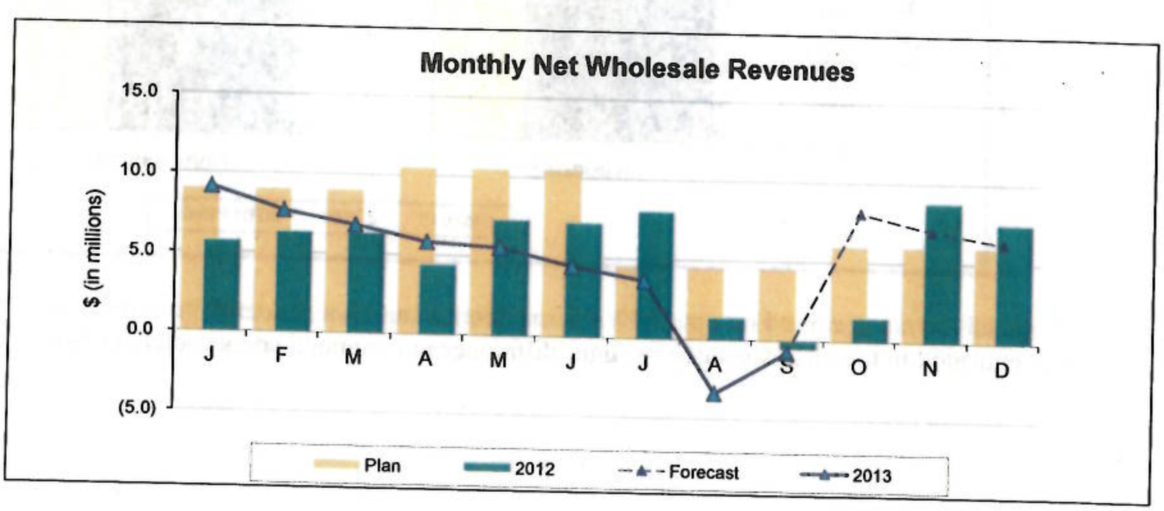


The projections of net short-term wholesale energy sales change weekly due to changes in water conditions, economic factors such as the price of natural gas, system load and the availability of surplus energy for resale. The chart below represents the current forecast for year-end net short-term wholesale revenues before booked-out long-term purchases, which is $60.3 million.

In contrast, the 2013 planned net wholesale revenue is set as specified in the Strategic Plan 2013-2018, which was adopted by City Council in July 2012. Therefore, it does not reflect current market conditions.

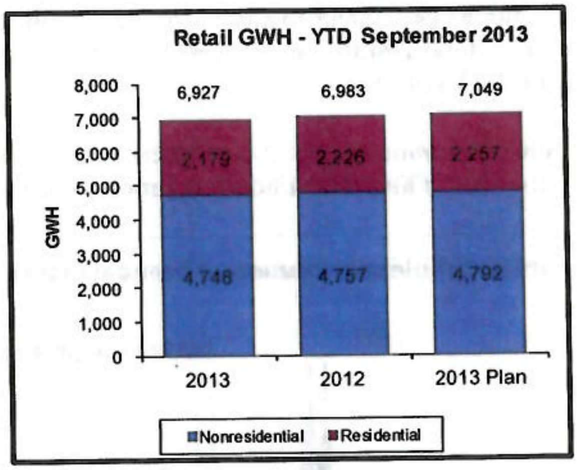


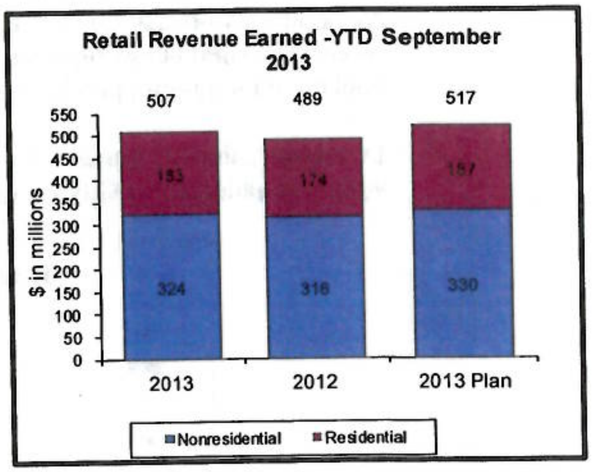
In September 2013 net wholesale revenues were $(0.8) million, meaning City Light was a net purchaser on the wholesale market. September wholesale revenue was $0.3 million lower than in September 2012 due, in part, to lower sales volumes. Rainfall was exceptionally high in September, leading to the large increase in the forecast for wholesale revenue for the remainder of the year.



Retail Power Revenues

The charts that follow present selected data on year-to-date retail power revenues.

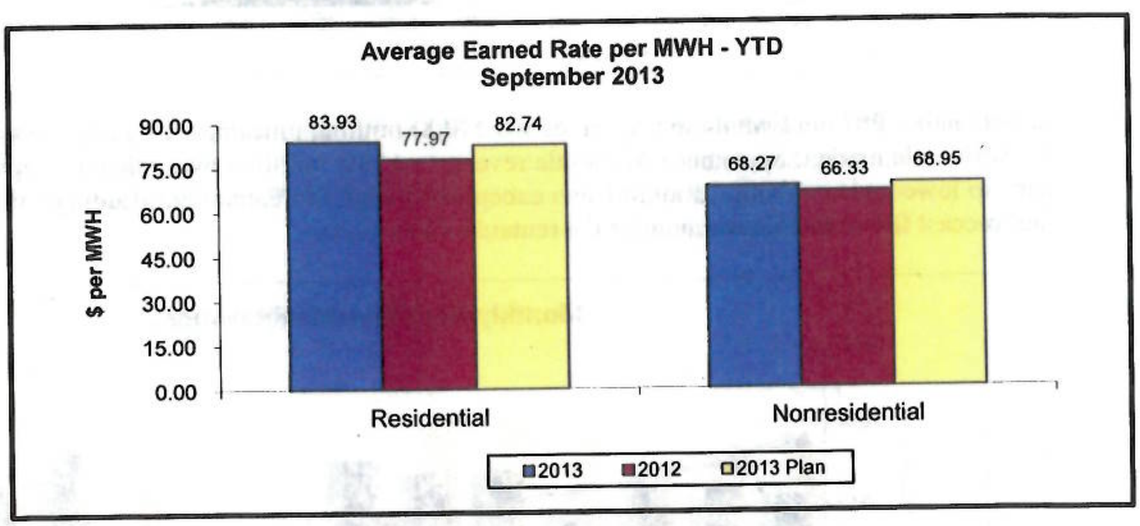




	Retail MWh YTD		
	Nonresidential	Residential	Total
2013 vs 2012	-0.2%	-2.1%	-0.8%
2013 vs Plan	-0.9%	-3.4%	-1.7%

	Retail Revenue YTD		
	Nonresidential	Residential	Total
2013 vs 2012	2.7%	5.4%	3.7%
2013 vs Plan	-1.9%	-2.0%	-2.0%

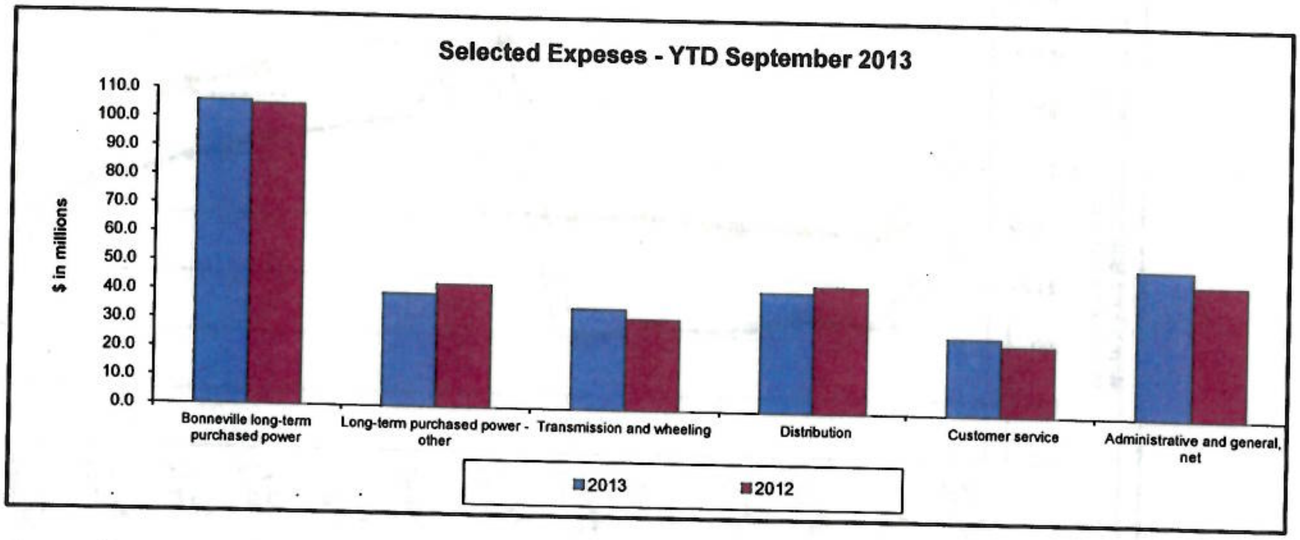
Year-to-date energy consumption is lower than in 2012 due in part to overall milder weather year-to-date, as well as lower load growth. Similarly, year-to-date consumption is lower than the 2013 Plan. Overall year-to-date retail revenues are $18.0 million higher than in 2012 because of a rate increase averaging 4.4% effective January 1, 2013, while retail revenues are lower than Plan due to lower than planned consumption.



The actual average earned rate per MWh for residential and nonresidential customers is different from what was expected in the 2013 Plan due to slight differences in assumed versus actual patterns of consumption.

Expense Data for Selected Accounts

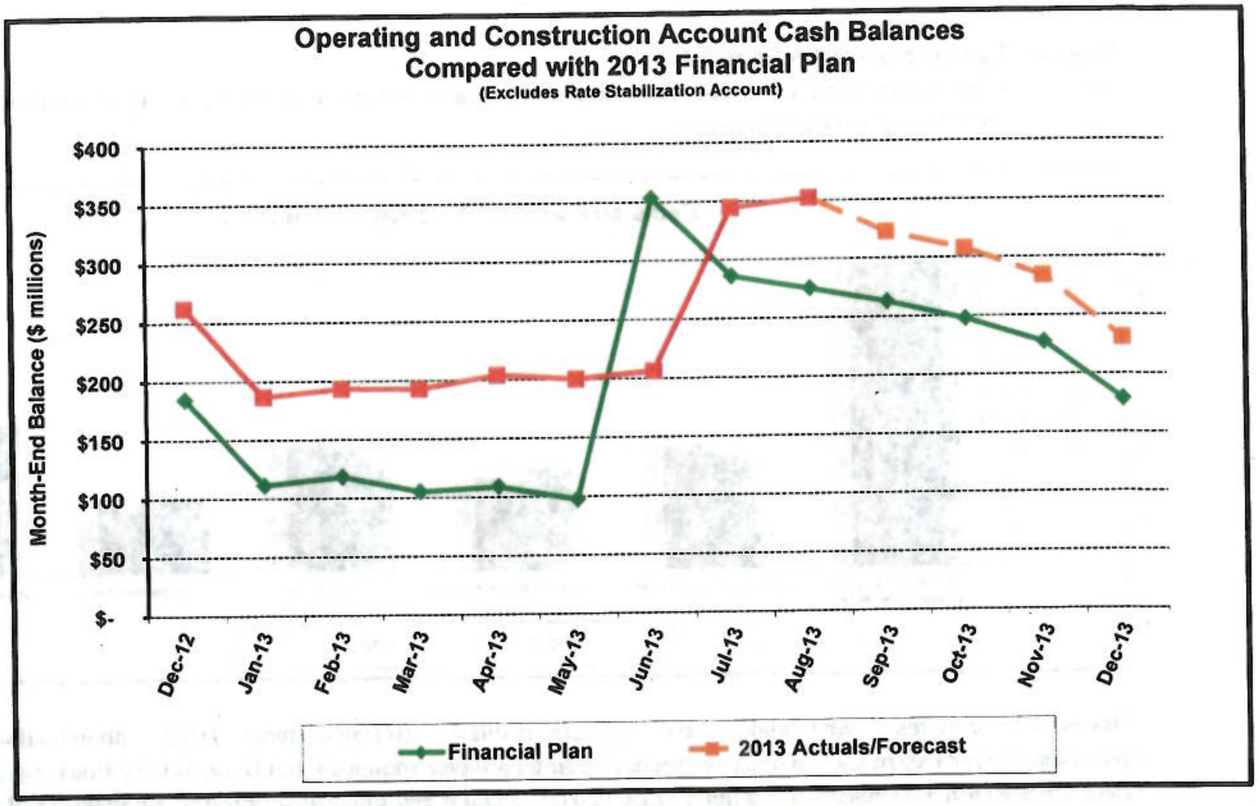
The following chart presents year-to-date data for major components of City Light's operating expenses excluding wholesale power transactions.



Bonneville expenses year-to-date are not significantly different from 2012. Year-to-date long-term purchased power expenses are lower primarily due to lower expenses from the Lucky Peak project. Year-to-date transmission expenses are higher than in 2012, when a regular bill failed to re-accrue for the month of September and was subsequently recovered in October. Distribution expenses are slightly lower due to lower pole maintenance and overhead inspection expenses. The customer service expenses year-to-date are higher than last year primarily due to higher billing and collection expenses, higher system operating expenses and higher bad debt expense. In 2012 bad debt expense had a negative expense balance resulting from actual write-offs processed during 2012 that were estimated in 2011. The 2012 actual write-offs processed reduced significantly the estimated allowance for bad debt and related expense. Administrative and general expenses are higher this year primarily due to higher salaries caused by COLAs and higher employee pension and benefits expenses.

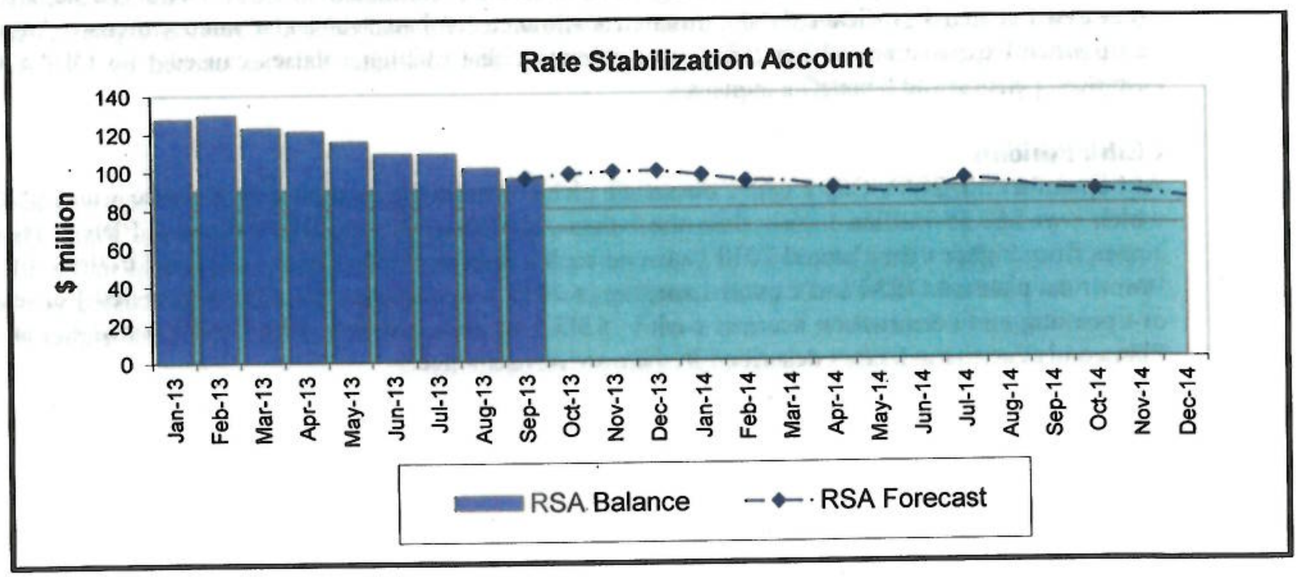
Cash Position

At September 30, 2013, City Light's operating plus construction account cash balance was $342.8 million, which was $63.55 million higher than the balance projected in the 2013 Financial Plan. This difference comes from higher than planned 2012 year-end cash balances, which are not reflected in the 2013 Plan, and lower than planned O&M and capital spending in 2013 year-to-date. The 2013 forecasted year-end balance of operating and construction account cash is $243.5 million, which is $65.1 million higher than the 2013 Plan and is due to the factors described in the previous sentence.



RSA Position

The cash balance in the RSA was $95.5 million as of September 30, 2013. The year-end RSA balance is projected to be $99.3 million. Because of the increase in the year-end forecast for net wholesale revenue, no RSA surcharge is expected until the third quarter of 2014.



2013 Budget

As of September 2013, City Light is projecting that overall it will be within its budget authority through year-end 2013. The Department has spent 73% of the overall O&M budget (O&M budget includes Non-Power O&M expenses, Purchased Power, Taxes and Debt Service) through September. At this point in the year we would normally expect to have spent 75% of the annual budget. City Light's spending on the Capital program through September is 87% of the 2013 work forecast for the year to date. City Light anticipates that the accomplishment rate will be 92% by year-end.

Debt-to-Capitalization

On September 30, 2013, City Light's debt-to-capitalization ratio was 61.8%, a decrease from 63.0% this time last year and a decrease from 62.8% reported at December 31, 2012. Based on the revised forecast, the 2013 year-end debt-to-capitalization ratio is now expected to be 61.5%, slightly lower than the 2013 Plan because of the lower bond issue in July and 2012 actuals that were not included in the Plan.

Compliance with Risk Policies and Standards

Attached for your information is the City Light Risk Oversight Status Report as of October 2, 2013, which conveys City Light's compliance with risk policies and standards at that point in time.

Performance Metrics

In addition to the financial information included above, we have provided a report on performance metrics for Distribution Operations, Vegetation Management, Safety and Human Resources, Power Resources and Customer Care. The updated Performance Metrics Report for September, 2013 with 2012 data included for comparison, is attached.

Attachments

Line No.	Condensed Statements of Revenues, Expenses and Changes in Net Position	Year-to-date			Year Ending December 31, 2013		
		[A] Actuals September 30, 2013	[B] Actuals September 30, 2012	[A - B] Actuals to Actuals Variance	[C] 2013 Revised Forecast	[D] 2013 Financial Plan	[C - D] Variance
2	**Unaudited**						
3	In millions						
4	**Operating Revenues**						
5	Retail power revenues	$ 507.2	$ 489.1	$ 18.1	$ 698.3	$ 707.2	$ (8.9)
6	Short-term wholesale power revenues, net (lines 41 + 44)	45.1	47.9	(2.8)	72.1	109.3	(37.2)
7	Power-related revenues - other	31.7	22.1	9.6	38.4	35.5	3.0
8	Transfers from/(to) rate stabilization account	32.8	33.1	(0.3)	29.0	(1.4)	30.4
9	Other revenues	17.5	17.5	-	23.4	22.8	0.7
10	Total operating revenues	634.3	609.7	24.6	861.3	873.4	(12.1)
11	**Operating Expenses**						
12	Generation	31.8	22.7	9.1	43.1	39.0	4.2
13	Bonneville long-term purchased power	105.7	104.7	1.0	150.5	153.3	(2.8)
14	Long-term purchased power - other	39.4	42.8	(3.4)	54.4	65.8	(11.4)
15	Short-term wholesale power purchases	13.3	5.5	7.8	20.3	24.5	(4.2)
16	Power-related wholesale purchases - other	10.0	5.5	4.5	12.1	9.6	2.5
17	Other power costs	8.8	7.3	1.5	12.4	10.6	1.8
18	Transmission and wheeling	35.1	31.7	3.4	50.1	48.2	1.9
19	Distribution	41.9	44.1	(2.2)	65.1	69.5	(4.4)
20	Customer service	27.0	24.4	2.6	37.8	42.6	(4.8)
21	Conservation	15.3	14.7	0.6	22.0	22.7	(0.7)
22	Administrative and general, net	51.6	46.5	5.1	72.8	73.3	(0.5)
23	Taxes	58.9	55.6	3.3	80.0	81.3	(1.3)
24	Depreciation and amortization	76.5	69.8	6.7	103.0	97.4	5.7
25	Total operating expenses	515.3	475.3	40.0	723.6	737.8	(14.2)
26							
27	**Net Operating Income**	**119.0**	**134.4**	**(15.4)**	**137.7**	**135.6**	**2.1**
28							
29	**Other Deductions, Net**						
30	Investment Income	0.1	4.3	(4.2)	1.0	7.8	(6.8)
31	Other income (expense), net	6.0	1.7	4.3	7.3	6.3	1.0
32	Interest expense	(59.0)	(57.4)	(1.6)	(79.2)	(81.3)	2.1
33	Noncapital grants	1.0	2.4	(1.4)	2.5	-	2.5
34	Capital contributions	46.5	16.7	29.8	53.3	35.6	17.8
35	Capital grants	1.4	0.5	0.9	2.7	0.8	1.8
36	Total other deductions, net	(4.0)	(31.8)	27.8	(12.5)	(30.9)	18.4
37							
38	***Change in Net Position***	**$ 115.0**	**$ 102.6**	**$ 12.4**	**$ 125.2**	**$ 104.7**	**$ 20.5**
39	**Note A:**						
40	Short-term wholesale energy sales, gross	52.2	51.6	0.6	80.6	114.5	(33.9)
41	Short-term wholesale energy purchases	(13.3)	(5.5)	(7.8)	(20.3)	(24.5)	4.2
42	**Net ST wholesale sales before booked-out LT purchases**	**38.9**	**46.1**	**(7.2)**	**60.3**	**90.0**	**(29.7)**
43	Booked-out long term purchases	(7.1)	(3.7)	(3.4)	(8.5)	(5.2)	(3.3)
44	Net short-term wholesale energy sales	**31.8**	**42.4**	**(10.6)**	**51.8**	**84.8**	**(33.0)**
45	**Note B:**						
46	Power-related revenues, net (line 8 minus line 17)	21.7	16.6	5.1	26.4	25.9	0.4

Net Income Variance Analysis
September 2013

Variance Year-to-Date 2013 Compared to 2012 Actuals: $12.4 million or 12.1%

Major components ($ millions):

$102.6	Net Income YTD through August 31, 2012
$18.1	Higher retail revenues due to 4.4% rate increase effective January 1, 2013
($7.2)	Lower net surplus energy sales
($9.1)	Higher generation due in large part to Gorge Tunnel planned efficiency costs write-off.
($2.6)	Higher customer service expenses primarily due to higher bad debt expense compared to 2012 ytd.
($5.1)	Higher administrative and general, net
($6.7)	Higher depreciation and amortization
$29.8	Higher in-kind CIAC primarily for Mercer Street and Amazon projects
($4.8)	Other (net)
$115.0	Net Income YTD through September 30, 2013

Variance 2013 Revised Forecast Compared to Financial Plan: $20.5 million or 19.6%

Major components ($ millions):

$104.7	Net Income through December 31, 2013 - Financial Plan
($8.9)	Lower retail revenues due to an updated load forecast and warmer than planned weather
($29.7)	Lower net surplus energy sales than planned
$30.4	Transfer from RSA to offset lower net surplus energy sales
$11.4	Lower long-term purchased power expenses
$4.4	Lower distribution expenses
$4.8	Lower customer service expenses
($5.7)	Higher estimated depreciation and amortization
($6.8)	Lower investment income
$20.3	Higher noncapital and capital grants, and capital contributions
$0.3	Other (net)
$125.2	Net Income through December 31, 2013 - Revised Forecast

City Light Risk Oversight Status Report
As of Wednesday, October 02, 2013

Summary

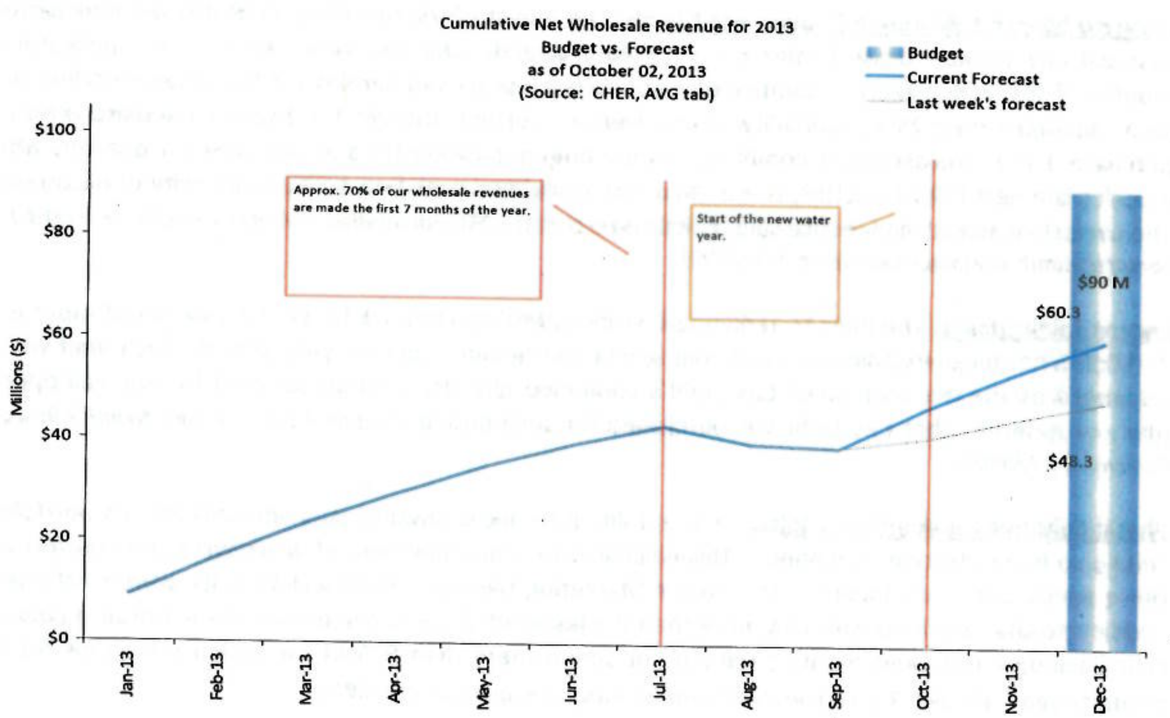
	% of 5 yr Avg	Current '13 Avg	5 Yr Avg
SCL Hydro Generation	93%	1,026 MW	1,108 MW
Peak Market Prices	92%	$34.75	$37.63

SCL Hydro Generation: The total average generation per hour for Seattle City Light's three major hydroelectric resources (Skagit, Boundary, and BPA Slice) for the 2013 calendar year. This average includes actual generation for past months, and forecasted MW for future months. The 5 year average value is comprised of actuals for years 2008-12.

Peak Market Prices: The average peak market price for the nearest electricity trading hub (Mid-C) for the 2013 calendar year. The 2013 average is comprised of monthly peak forward marks for future months and averaged Dow Jones firm peak index daily prices for past months. The 5 year average is calculated using Dow Jones peak daily prices for years 2008-12.

Wholesale Revenue Variance: Chart 1 below compares the 2013 annual approved Net Wholesale Revenue (NWR) budget of $90MM with the latest NWR forecast of $60.3MM. The NWR forecast increased by $12.0MM from the previous forecast of $48.3MM. The primary driver for this increase can be attributed to the increase in resource forecast resulting from the recent above normal rains. Forward prices had minimal effect.

Chart 1



Policy Compliance:

Tail Risk Limit	Prompt Month & Within Month Limit	Forward Month's Resource Requirement Limit	Forward Sales Limit	Physical Options Limit
Compliant	Compliant	Compliant	Compliant	Compliant

Tail Risk: For the current calendar year, the Power Marketing Division (PMD) will conduct its hedging activity to maintain the Utility's position within an $8MM Risk Tolerance Band (RTB) around the calculated 5% Tail Risk metric. For the prompt year (the year immediately following the current calendar year), the Utility's position will remain within a $10MM RTB around the 5% Tail Risk metric. *(Section 3.3.2 Prompt and Within the Month (WERM))*

Prompt Month & Within Month Volumetric Limit: The Power Marketing Division (PMD) will maintain City Light's power portfolio position for any prompt month or any Balance of the Month period so that such position shall not exceed a 50 average megawatt deficit during such period. Such limit will be calculated as the net position of City Light's combined physical position adjusted for any call options (daily or monthly) that City Light has purchased for such month. If this limit is exceeded, the Division will take immediate action to reduce the deficit to under 50 average megawatts. *(Section 3.3.1.1 Prompt and Within the Month (WERM))*

Forward Month's Resource Requirement Limit: The Power Marketing Division (PMD) will immediately suspend any further forward sales for any future calendar quarter, which includes the next full 24 months, if the forecasted net combined system energy projected surplus for that quarter is less than zero calculated on a 75% probability of occurrence. Further, the PMD will take immediate action to purchase if the forecasted net combined system energy position for a future calendar quarter, which includes the next full 24 months, is less than zero calculated based on a 50% probability of occurrence. The corrective action shall reduce said deficit to zero at the 50% probability of occurrence. *(Section 3.3.1.2 Forward Month's Resource Requirement (WERM))*

Forward Sales Limit: The Power Marketing Division (PMD) will not sell forward a quantity of more than 1,750,000 net megawatt hours over a rolling four full calendar quarter year period. Such limit will be calculated as the net position of City Light's combined physical position adjusted for any call options (daily or monthly) that City Light has purchased for such period. *(Section 3.3.1.3 Forward Month's Resource Requirement (WERM))*

Physical Options Volumetric Limits: As the utility introduces physical puts and calls into its portfolio it will do so in a conservative manner. This will allow for the refinement of procedures and controls that these transactions will impact. The Power Marketing Division (PMD) will limit its option volumetric position so that it will not transact more than the lesser of 300 average megawatts in physical puts and calls (including daily and monthly options) or spend more than $2MM for option premiums for any calendar year. *(Section 3.3.1.4 Forward Month's Resource Requirement (WERM))*

5% Tail Risk Metric, 2013

In October 2007, City Light implemented a risk metric named the "5% Tail Risk". It is calculated as the average of the worst-case scenarios for City Light's cash from operations for the calendar year. Cash from operations is a bottom-line financial metric defined as the cash available to finance capital projects. There are numerous drivers of cash from operations such as retail revenue, investment income, debt service, and O&M expenses; however wholesale energy revenue is typically the primary driver of uncertainty in this metric.

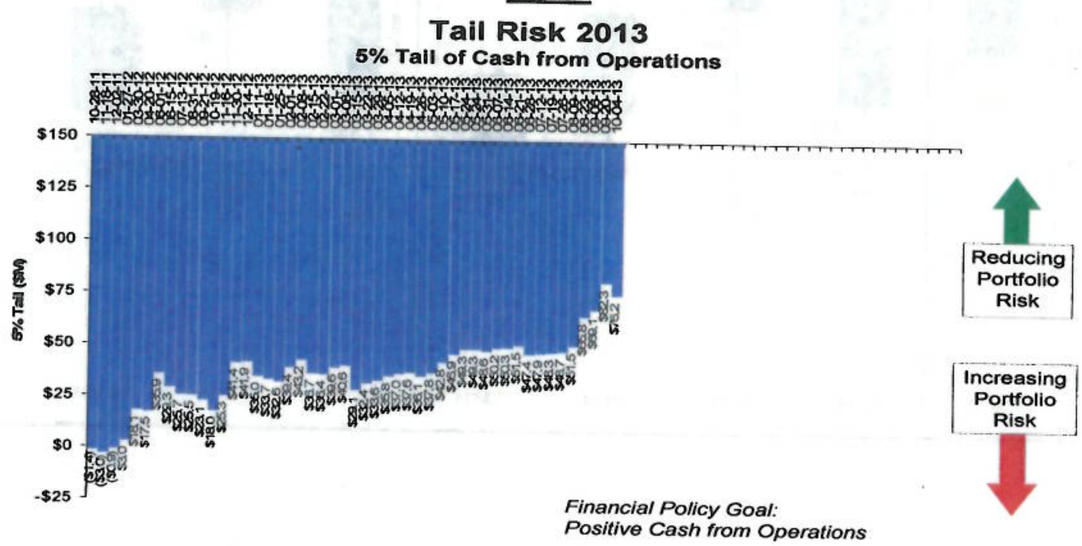
In 2011, the Rate Stabilization Account (RSA) became operational. The RSA is a cash reserve that is used to buffer the Utility from uncertainty in wholesale energy revenue. If the RSA becomes depleted, it is replenished via retail rate surcharges. The RSA significantly mitigates City Light's financial (i.e. cash from operations) risk associated with wholesale energy revenue; however retail customers are exposed in part to the wholesale energy revenue risk via RSA surcharges of up to 4.5%. To appropriately encourage management of risk borne by both City Light and retail customers, the cash from operations amount used in the 5% Tail Risk calculation excludes any effects of the RSA.

The 5% Tail Risk metric is used as a risk control measure in City Light's management of surplus hydro resources. It is used in concert with additional volumetric limits, as well as expert knowledge and analysis of western wholesale energy markets, river flow data, and generation unit outages, to inform power management decisions.

Every week, portfolio models are updated with the most current information and the 5% Tail Risk is recalculated for both the current portfolio (forecast position plus purchases, less sales) and planned portfolio (current portfolio plus remainder of existing hedge plan). The metric provides an indication as to whether the utility's portfolios include too much or too little surplus resources.

Chart 2 (below) illustrates the 5% Tail Risk metric values for the calendar year 2013. During the course of the year, the 5% Tail Risk metric value has decreased from an initial projection of -$1.4MM to the current projection of a worse case of $76.2MM of Cash from Operations.

Chart 2



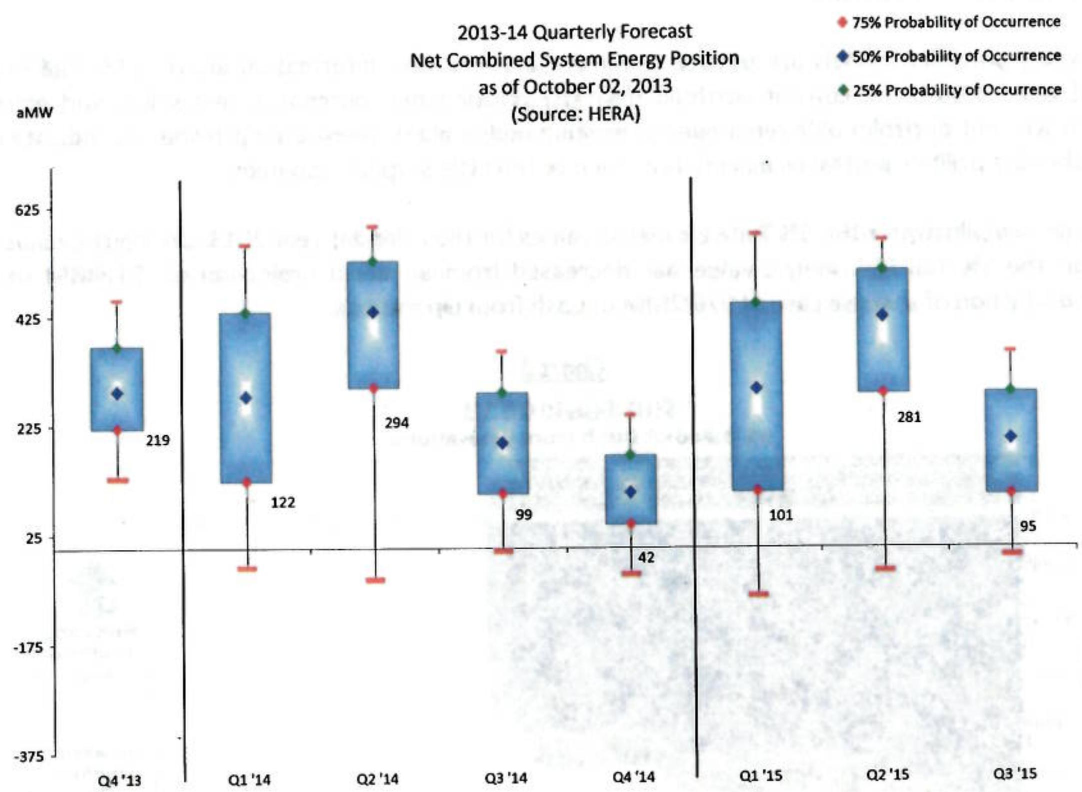
Hedging Plan & Position Status

Hedge Plan 2013, Phase 3 was last proposed and approved by the Risk Oversight Council on June 18, 2013.

City Light uses the most recent load and hydro forecasts including relevant historical data to run a Monte Carlo simulation based model that produces a forecast of more than two thousand portfolio resource scenarios. The output of this model along with the current forward positions provides energy information needed to determine SCL's position. The chart above shows the positions as of the model run date for the different probability of occurrence of the various resource scenarios.

Chart 1 shows the Net Combined System Energy Position for the next 8 quarter, 2 year periods to cover the full amount of City Light's contracting authority. The blue boxes represent the expected net energy position from the 25th to the 75th percentile. The dark blue diamonds inside the boxes represent the 50th percentile. Under the amended rule, if the blue diamond is below zero, City Light must purchase energy to get back above zero.

Chart 3

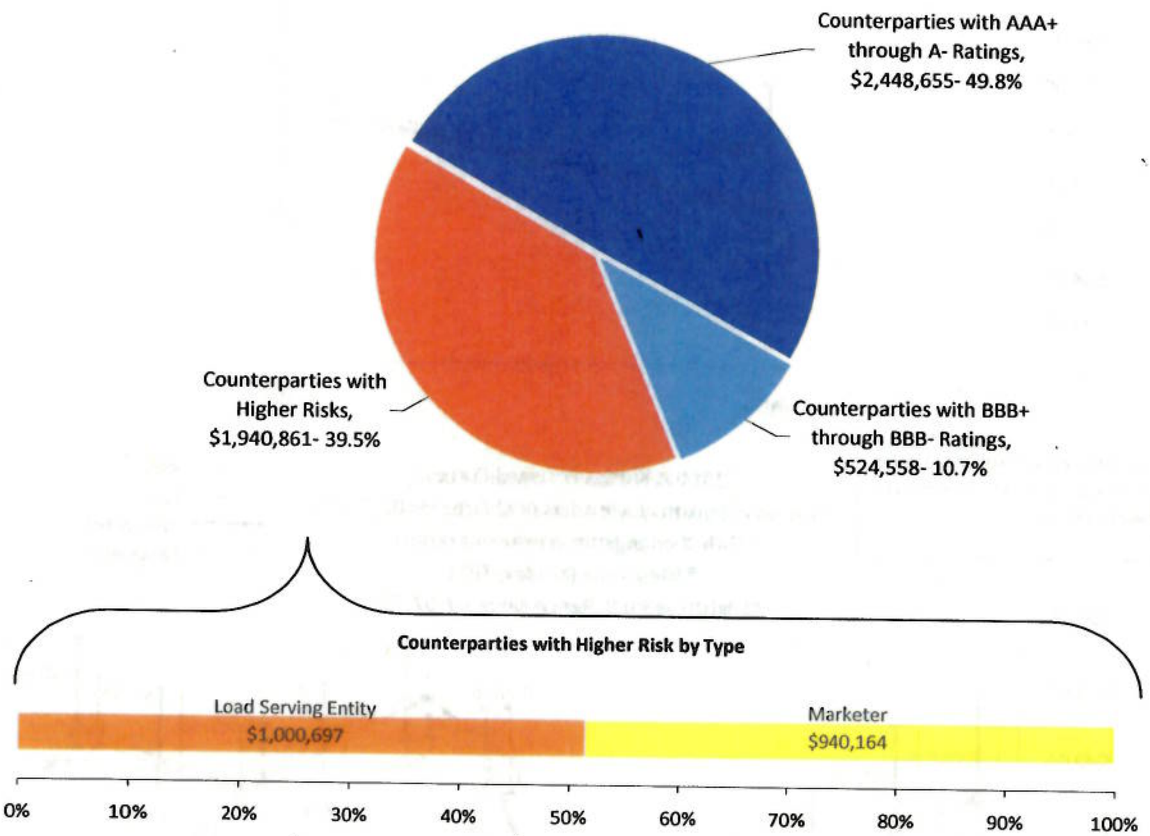


Credit

City Light actively manages its wholesale energy market credit risk by: setting credit limits for each counterparty that are derived from credit scoring models and analysis; securing credit enhancements; monitoring industry news; and by tracking counterparty credit exposures. Risk Management Division uses industry standard tools to proactively measure changes in counterparty creditworthiness. Internal credit ratings are arrived in conjunction with ratings provided by external agencies. In addition, the concept of risk tolerance further extends to counterparties that are considered 'Higher Risk' with equivalent Moody's and S&P implied ratings of 'BB+' or less. Counterparties with such implied ratings are placed into the 'Higher Risk Credit Portfolio' for close monitoring in order to reduce the risk of slow or non-payment while maximizing wholesale power, transmissions and related ancillary revenue opportunities. City Light strives to keep its "Higher Risk" counterparty exposures at less than 25% of the total exposure at any given time.

Chart 4

Total Net Credit Exposure by Implied Ratings Class
as of October 02, 2013

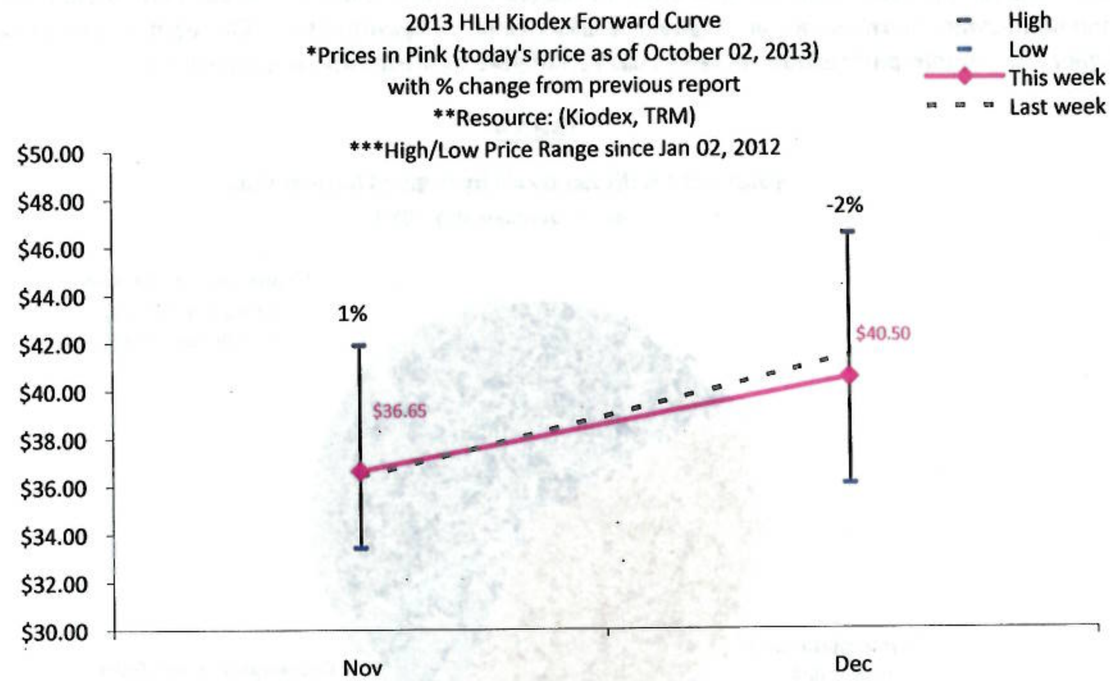


Credit Notes: A possible new trading entity is being evaluated by Risk Oversight and Risk has negotiated a letter of credit (LOC) for $250 thousand with a one year term. The LOC is currently being evaluated by the City's Law Department for acceptability. The counterparty will be activated for transactions upon completion of appropriate approvals.

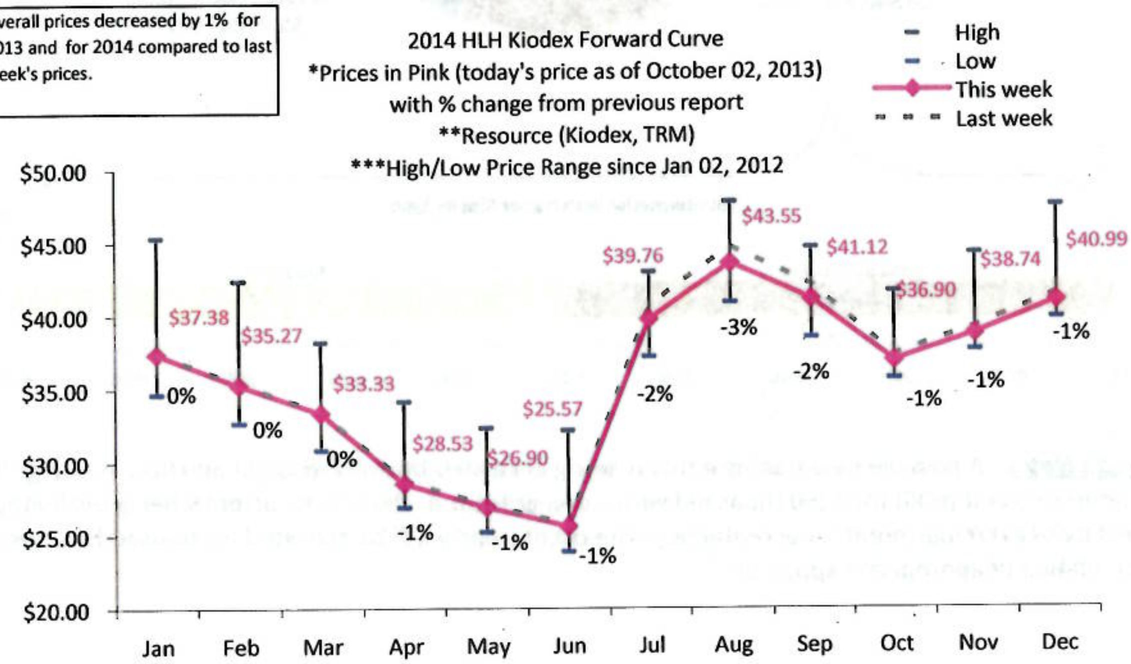
Price

To ensure that prices are independently developed, City Light's official forward price curve is prepared by KIODEX and used for internal analysis, valuation and modeling tasks. Chart 5 shows the forward price range (Mid-C HLH only) for calendar year 2013 and 2014.

<u>Chart 5</u>

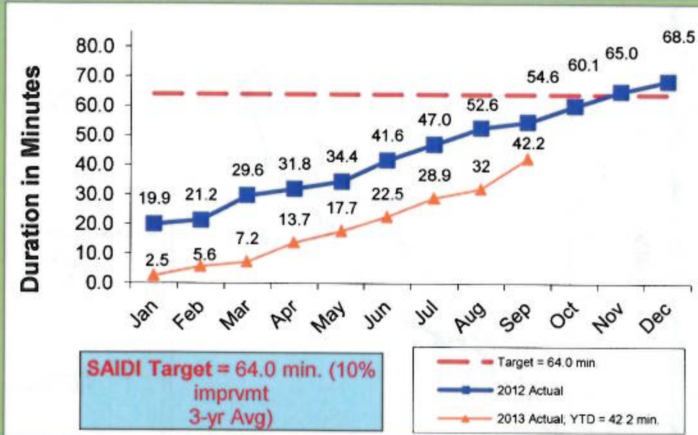


Overall prices decreased by 1% for 2013 and for 2014 compared to last week's prices.

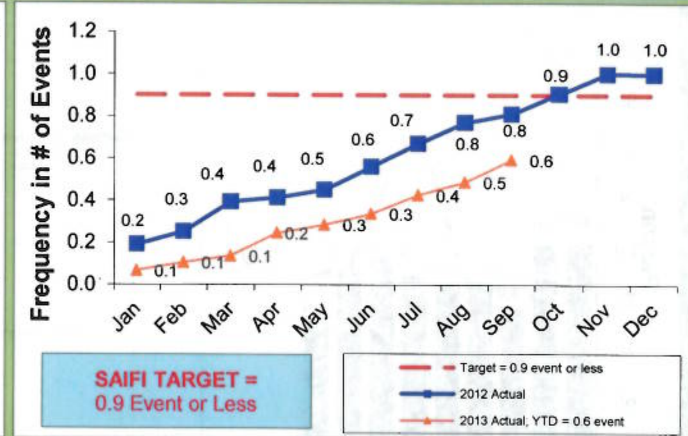


Distribution Operations:

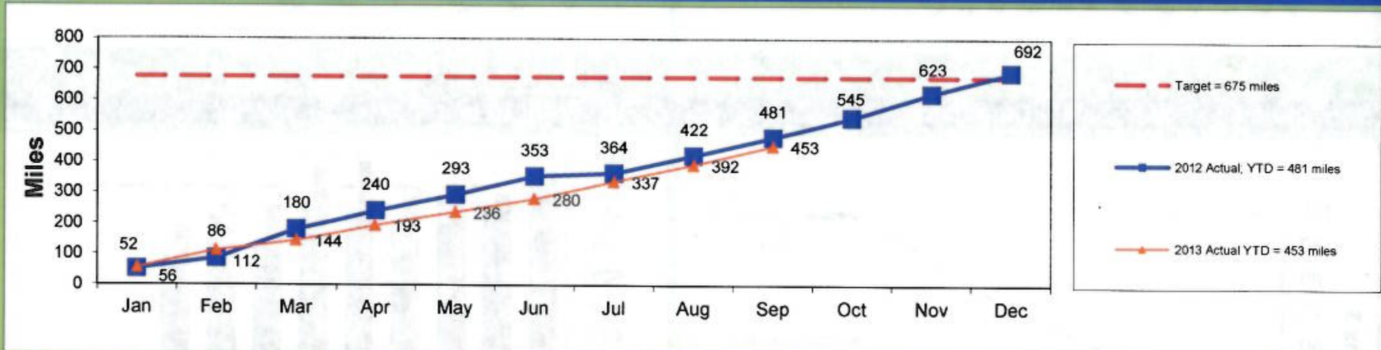
SAIDI - Cumulative



SAIFI - Cumulative

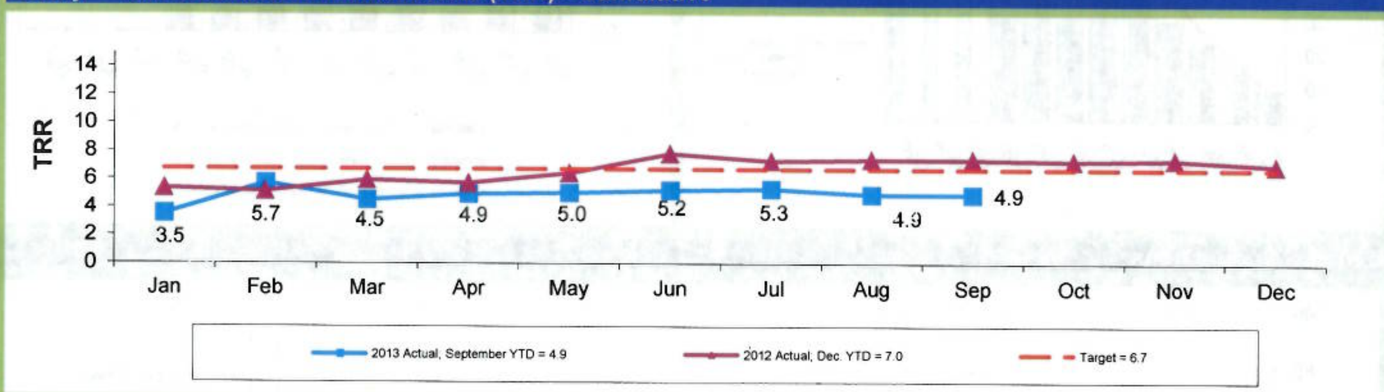


Vegetation Management - Cumulative Miles of Trees Trimmed



Human Resources:

Safety - Total Recordable Incident Rate (TRR) - Cumulative

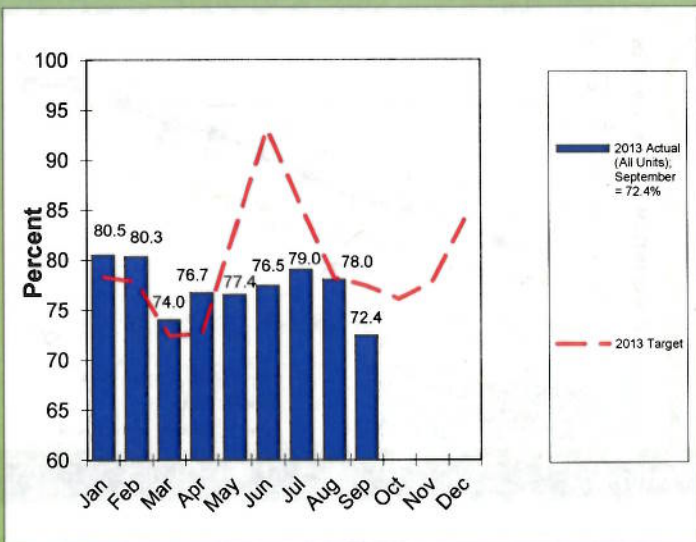


Hiring Statistics YTD

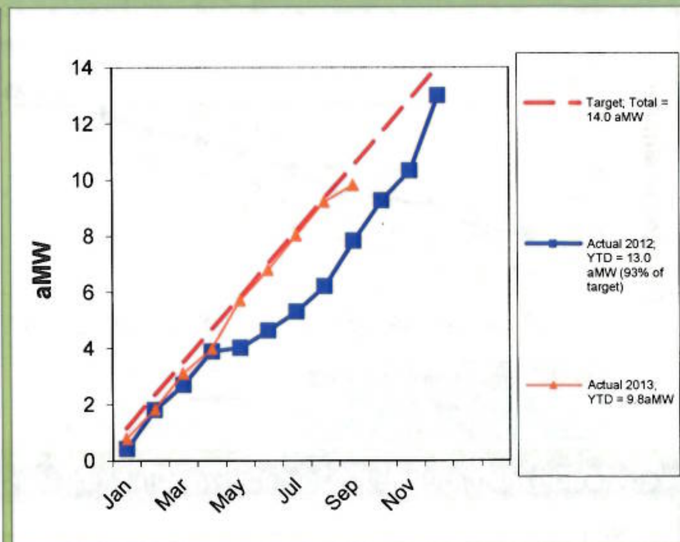
	Jan	Feb	Mar	April	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
Cumulative # of New Hires	12	21	30	40	54	74	88	100	113	0	0	0
Cumulative # of Promotions	4	9	13	16	27	31	39	44	52	0	0	0
Ave. # of Hiring Days	38	47	45	46	46	46	44	40	38	0	0	0
Cumulative # of Attrition	4	14	26	38	51	59	70	82	90	0	0	0
Vacancy Rate Mo. End	7.8%	7.9%	7.8%	7.8%	8.0%	7.4%	7.2%	7.3%	7.2%	0.0%	0.0%	0.0%

Power Resources:

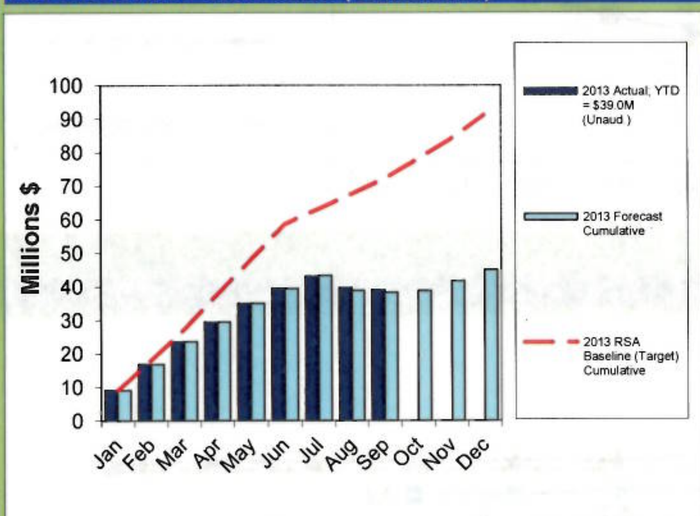
Generator Availability-All Units (Actuals %)



Conservation Savings (Cumulative)

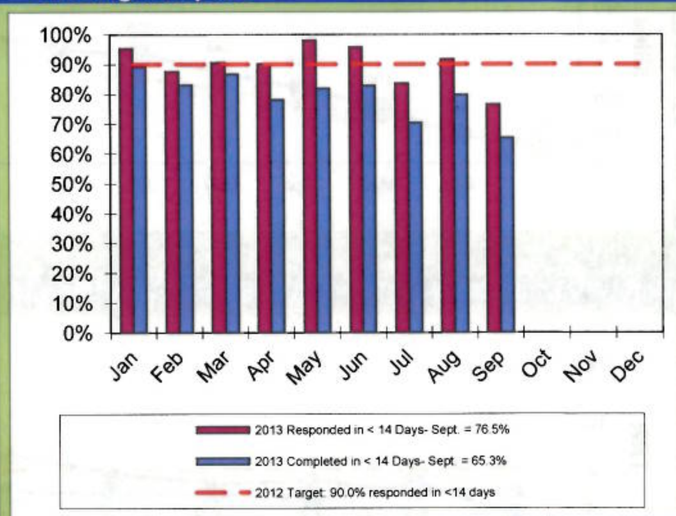


Net Wholesale Power Sales (Cumulative)



Customer Care:

Streetlight Repairs



Service Connections